British Columbia Milk Marketing Board

Annual Report for the 2003/2004 Dairy Year

Fifteenth Annual Report July 31, 2004

105-01247/

B.C. Milk Marketing Board

2004 Annual General Meeting

Chairman	John Jansen
Vice-Chairman	Ben Cuthbert
Secretary-Treasurer	Ben Janzen
Board Member	Debbie Aarts
Board Member	Corny Klop
Milk Industry Advisory Committee Chairman	Gordon Souter
Transportation Advisory Committee Chairman	Corny Klop
Audit Committee Chairman	Louis Schurmann
General Manager	Thomas Demma
Assistant General Manager	Jim Byrne
Controller	Robert Delage
Provincial Milk Manager	Warren Penner
Transportation Coordinator	Gary Broerken
Transportation Coordinator	Kelly Harris
Policy Analyst	James Leschuk
Communications Officer	Scott Miles
Finance Officer	Barbara Pacholko
Quota Officer	Jennifer Lavoie
Milk Pay Officer	Sandra Livingston
Receptionist	Lori Sharpe
Herd Inspector	John Lockhart
Financial Institution	Bank of Montreal
Auditors	KPMG LLP Chilliwack
Vendor Auditors	KPMG LLP Chilliwack
Legal Counsel	Macaulay McColl

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British Columbia Milk Marketing Board
Fifteenth Annual General Meeting
Wednesday, November 17, 2004

Rainbow Country Inn
43971 Industrial Way
Chilliwack, British Columbia

Agenda

Call to Order	10:00 a.m.
Reading of the Notice of Meeting	
Approval of the Minutes of the Fourteenth AGM	
Business Arising from the Minutes	
Chairman's Statement	John Jansen
Report of the Audit Committee	Louis Schurmann
Auditors' Report	KPMG
Financial Statements	Ben Janzen
Appointment of Auditor	Louis Schurmann
Approval of Members' Remuneration	Louis Schurmann
Review of Statistical Information	John Jansen
Report on Legal Issues	John Jansen
New Business	
Adjournment	12:00 noon

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Chairman's Statement

The British Columbia Milk Marketing Board (BCMMB) addressed a number of issues during the 2003/2004 dairy year. Chief among these were the Graduated Entry Program (GEP) and a review of specialty production and niche marketing. As well, the impact of a shrinking skim milk powder export capability has given rise to a host of interrelated matters associated with the composition of milk shipped by producers and the manufacture of finished dairy products.

During the 2003/2004 dairy year all provinces prepared for the new harmonized milk component testing environment effective August 1, 2004. The changes included the implementation of a common other solids constant and a butterfat density formula. This will result in more precise measurements of milk components, particularly butterfat, which is important for determining milk quota utilization and producer payment.

The matter of milk quota sharing among Western Milk Pool (WMP) provinces in light of the 10:90 method by which Market Sharing Quota (MSQ) is allotted to the signatory provinces remains an outstanding matter. British Columbia continues in its effort to achieve WMP consensus regarding quota sharing provisions set out in the WMP agreement.

The January 1, 2004 implementation of an increase to the BCMMB Vendor Marketing Costs and Losses Levy of $1.96 per standard hectolitre for milk used and reported in fluid milk sub-classes 1(a), 1(b)(i) and 1(c) in recognition of BSE impacts was the basis of an appeal to the British Columbia Farm Industry Review Board (BCFIRB). The BCFIRB decision on this matter ordered the BCMMB to rescind the levy effective June 30, 2004. The BCFIRB also directed the BCMMB to work with other provinces to attempt to achieve a WMP initiative in this regard.

The issue of being responsive to the needs of niche or emerging markets, and particularly the needs of processors for "differentiated" milk, continues to be recognized by the Board. British Columbia is a major participant in the Domestic Dairy Product Innovation Program (DDPIP) and the Board encourages and assists processors that submit DDPIP applications. During the reporting period, and as directed by the BCFIRB, the Board undertook a review of the Cottage Industry Program and similar opportunities whereby persons entering into the regulated British Columbia dairy industry as licensed producer vendors are able to continue with their operations over the long term.

On January 19, 2004 the BCFIRB decision regarding the appeals filed in response to BCMMB decisions pertaining to milk transportation ordered that the full pooling of milk transportation costs was to be implemented by no later than August 1, 2004. More information regarding appeals can be found in the "Appeals to the B.C. Farm Industry Review" section of the Annual Report.

The Board undertook extensive consultation during the reporting period for the purpose of identifying potential changes to the Graduated Entry Program (GEP). During the review period it was determined that the supervisory mandate of the BCFIRB should be relied upon for establishing these changes. On receipt of a BCFIRB directive dated May 20, 2004 the BCMMB amended the Consolidated Order effective August 1, 2004. GEP producers were subsequently notified of their options with respect to the revised GEP. As well, all persons on the GEP wait list were notified of provisions effecting eligibility.

The Board Members and I sincerely appreciate the support and advice we have received from the British Columbia Dairy Council, the British Columbia Milk Producers Association and the regional dairy organizations. In addition, the recommendations provided to the Board by the Milk Industry Advisory Committee (MIAC) and the Transportation Advisory Committee (TAC) have been extremely useful for guiding Board decisions on pricing and supply matters and transportation issues respectively. Furthermore, I express appreciation to the Butterfat Working Group, which is comprised of producers, processors and other dairy industry stakeholders, for their past and continuing efforts serving to examine options regarding the production of surplus solids non-fat milk components.

On behalf of the Board, I would like to express appreciation to all producers, processors and transporters who have provided input to resolve the issues facing the dairy industry. With all stakeholders working together we can continue to successfully address future challenges.

Respectfully submitted,

John Jansen
Chairman

General Manager's Report

Legislative and regulatory compliance and governance of the British Columbia Milk Marketing Board (BCMMB) are the responsibilities of the Chairman and Board Members as supported by staff. Regulatory obligations are met through the Board, the Milk Industry Advisory Committee (MIAC) and the holding of the Annual General Meeting. Issues of interest to dairy industry stakeholders are addressed by way of standing committees and working groups.

As part of its regular consultation practices, the Board holds producer meetings in a number of locations throughout the province during the spring and fall. As well, the Board regularly meets with the British Columbia Dairy Council and the British Columbia Milk Producers Association. These organizations are the respective advocacy groups for British Columbia processors and producers. In aggregate, the consultation process permits the examination of Board regulation and policy, and provides for the opportunity to obtain input from dairy industry stakeholders.

Responsibility for daily operations resides with the General Manager and eleven employees. Regulatory and administrative duties are performed through the following divisions:

- Board Governance, Communications and Human Resources
- Finance, Administration and Information Technology
- Milk Order and Transportation

Not to the exclusion of others, the duties and responsibilities of the BCMMB are to:

- maintain a register of licensed producers;
- license all producers, vendors, producer vendors and milk transporters;
- allot milk quota to licensed producers;
- serve as the registrar of milk quota and administer the transfer of quota among producers;
- administer timely changes to published milk prices;
- perform the monthly producer equalization pool and remit advance and final producer payments that include the milk quality bonus when applicable;
- administer third-party auditing of vendors;
- manage the activity of raw, bulk milk pick-up at farms and delivery to vendors;
- administer the collection of levies from producers as required by provincial statute and remit said funds to the British Columbia Dairy Industry Development Council;
- prepare and disseminate accurate and timely industry information through established communication devices including newsletters, brochures, web sites and broadcast e-mail;
- liaise with government, British Columbia dairy and agriculture organizations and other milk regulatory agencies outside of British Columbia; and
- provide secretariat support to the Milk Industry Advisory Committee (MIAC), the Transportation Advisory Committee (TAC) and those working groups established from time to time by the Board.

A list of accomplishments that occurred during the 2003/2004 dairy year is set out below:

- relocated the Board office to its current location in October 2003;
- engaged expert services for the preparation of a costing model serving to determine remuneration for firms and individuals providing milk transportation services;
- continued with efforts to provide producers with timely milk component and milk quality data by making use of available electronic data capture and reporting devices;
- launched a new web site in March 2004 featuring a password-protected Producers Only section that permits the retrieval of individual farm data;
- implemented three successively increasing minimum butterfat thresholds over the June to August 2004 time period that affected the recording and reporting of monthly allotted Total Production Quota (TPQ);
- undertook changes to administrative practices for implementing the monthly pooling of milk transportation costs as ordered by the British Columbia Farm Industry Review Board to come into effect no later than August 1, 2004; and
- worked with Pacific Milk Analysis Laboratory to adjust administrative procedures in preparation for revised milk component determination methods effective August 1, 2004.

During the reporting period routine changes to published prices for processor billing were authorized by the Board. The 2003/2004 dairy year was characterized by fewer changes to fluid milk prices compared to the previous dairy year. The lesser degree of input cost variability experienced in Alberta during the 2003/2004 dairy year was attributable to relatively stable dairy feed and hay costs that are key elements in the Alberta Fluid Milk Price Formula that serves to benchmark British Columbia fluid milk prices.

The overall goal of the Board is to provide accurate and timely administrative services for producers, processors and transporters. Board operations are constantly examined to assess where efficiencies can be achieved and cost savings accomplished.

Lastly, I would like to extend my appreciation to the BCMMB staff for their dedicated efforts. Their work permitted the Board to meet its regulatory obligations and its administrative and service objectives.

Thomas A. Demma, P.Ag.
General Manager

Financial Statements of

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Year ended July 31, 2004

KPMG LLP
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AUDITORS' REPORT TO MEMBERS

We have audited the balance sheet of British Columbia Milk Marketing Board General Fund as at July 31, 2004 and the statements of revenues and expenditures, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Milk Marketing Board General Fund as at July 31, 2004 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Chilliwack, British Columbia
September 28, 2004

KPMG LLP, a Canadian limited liability partnership established under the laws of Ontario, is the member firm of KPMG International, a Swiss cooperative.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Balance Sheet

July 31, 2004, with comparative figures for 2003

	2004	2003
Assets		
Current assets:		
Cash	$ 2,320,269	$ 3,035,956
Accounts receivable (Note 3)	4,028,874	1,260,128
Prepaid expenses	10,383	5,200
	6,359,526	4,301,284
Investment (Note 4)	1,216,252	1,046,549
Capital assets (Note 5)	139,371	92,636
	$ 7,715,149	$ 5,440,469
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 251,008	$ 219,855
Fees payable or refundable (Note 6)	412,654	407,788
Unearned fees (Note 7)	3,420,616	1,302,737
Unearned licence revenue	135,600	144,199
	4,219,878	2,074,579
Net assets:		
Invested in capital assets	139,371	92,636
Internally restricted	1,843,575	1,843,575
Unrestricted	1,512,325	1,429,679
	3,495,271	3,365,890
Commitment (Note 11)		
Contingent liability (Note 12)		
	$ 7,715,149	$ 5,440,469

On behalf of the Board:

Chairman

Secretary-Treasurer

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Statement of Revenues and Expenditures

Year ended July 31, 2004, with comparative figures for 2003

	2004	2003
Revenues:		
Other agencies (Note 8)	$ 9,207,382	$ 6,275,374
Board (Note 9)	1,890,594	1,792,444
Transportation (Note 10)	10,014,224	9,598,341
	21,112,200	17,666,159
Less transfers to other agencies (Note 8)	9,207,382	6,275,374
	11,904,818	11,390,785
Interest	110,591	128,280
Special projects expense recovery	38,617	37,732
	12,054,026	11,556,797
Expenditures:		
Amortization	34,843	23,159
Audit - Board	16,710	26,400
Audit - Vendor	149,760	191,508
Board member per diems	186,950	190,250
Committees	10,875	13,924
Consulting and contract wages	16,300	6,725
Data processing	102,202	92,756
General office and administration	280,036	286,629
Legal	77,475	33,994
Milk testing charges	128,776	121,131
Salaries and benefits	666,361	625,377
Special projects	45,356	86,295
Travel	194,777	191,309
Transportation (Note 10)	10,014,224	9,598,341
	11,924,645	11,487,798
Excess of revenues over expenditures	$ 129,381	$ 68,999

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Statement of Changes in Net Assets

Year ended July 31, 2004, with comparative figures for 2003

	Invested in capital assets	Internally restricted	Unrestricted	2004 Total	2003 Total
Balance, beginning of year	$ 92,636	$ 1,843,575	$ 1,429,679	$ 3,365,890	$ 3,296,891
Excess (deficiency) of revenues over expenditures	(34,843)	-	164,224	129,381	68,999
Change in investment in capital assets	81,578	-	(81,578)	-	-
Balance, end of year	$ 139,371	$ 1,843,575	$ 1,512,325	$ 3,495,271	$ 3,365,890

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Statement of Cash Flows

Year ended July 31, 2004, with comparative figures for 2003

	2004	2003
Cash provided by (used in):		
Operating:		
Excess of revenues over expenditures	$ 129,381	$ 68,999
Items not involving cash:		
Amortization of equipment	34,843	23,159
Amortization of prepaid rent	5,297	15,894
Net changes in non-cash working capital balances relating to operations:		
Accounts receivable	(2,768,746)	4,923,771
Prepaid expenses	(5,183)	5,525
Accounts payable and accrued liabilities	31,153	45,738
Fees payable or refundable	4,866	(430,013)
Unearned fees	2,117,879	(3,030,695)
Unearned licence revenue	(8,599)	(8,898)
	(459,109)	1,613,480
Investing:		
Purchase of capital assets	(81,578)	(14,430)
Increase in investment	(175,000)	(1,008,500)
	(256,578)	(1,022,930)
Increase (decrease) in cash position	(715,687)	590,550
Cash position, beginning of year	3,035,956	2,445,406
Cash position, end of year	$ 2,320,269	$ 3,035,956
Supplementary cash flow information:		
Interest received	$ 89,150	$ 105,200

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Notes to Financial Statements

Year ended July 31, 2004

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1. General:

(a) The British Columbia Milk Marketing Board ("the Board") is a regulatory body which receives its authority under the Natural Products Marketing (B.C.) Act, the British Columbia Milk Marketing Board Regulation, the Milk Industry Act, the Agricultural Products Marketing Act, the British Columbia Milk Order, the Canadian Dairy Commission Act, and the Dairy Products Marketing Regulations. The General Fund includes all statutory activities of the Board with the exception of Milk Pool Equalization Fund which is accounted for as a distinct fund and reported on separately.

Effective October 1, 2001, the Board became the first receiver of raw milk. As a consequence the Board acts as a facilitating intermediary between producers and processors with respect to the transportation and sale of raw milk.

The Milk Pool Equalization Fund has $420,607,347 in equalization revenue and $420,607,347 in equalization expenditures and $40,981,458 in assets and liabilities to July 31, 2004 which are not included in these financial statements.

(b) The Board remits Equalization payments to the Canadian Dairy Commission ("CDC"). The CDC receives the funds in respect of milk and dairy products in inter-provincial trade and, as agent for the Board, distributes them pursuant to prevailing pooling agreements, and, in respect of milk and dairy products in international export trade, pursuant to the above legislation.

2. Significant accounting policies:

(a) Unearned fees:

Unearned fees consists of:

i) the difference between the world price received by producers and domestic price paid by processors for milk shipments assessed by the Board based on individual producer's market share quota and those computed by the CDC based on the aggregate provincial allotment of quota for the dairy year;

ii) distributions of any surpluses from the marketing operations of the CDC for the year; and

iii) amounts retained by the Board in case of processor default.

The Board exercises discretion over the use of these funds. At the discretion of the Board in any year following the recording of unearned fees, the amounts may be appropriated as revenue or redistributed to producers. Appropriated revenues are recorded as internally restricted funds until utilized by the Board.

2. Significant accounting policies (continued):

(b) Investments:

The Board accounts for its 50% interest in Central Agricultural Facility Ltd. using the equity method. Under the equity method, the investment is recorded at the original cost of the shares plus the Board's share of undistributed earnings since inception. The statement of operations includes the Board's share of investee income or loss for the year.

(c) Capital assets:

Capital assets are recorded at cost.

Amortization of office equipment has been provided in the accounts on a declining balance basis at an annual rate of 20% calculated on the unamortized balance at the end of the year.

(d) Transportation:

Transportation revenues and expenses are recorded when the services are performed.

(e) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. Accounts receivable:

	2004	2003
Milk Pool Equalization Fund	$ 3,304,814	$ 1,011,909
Accounts receivable - trade	724,060	248,919
	$ 4,028,874	$ 1,260,828

4. Investment:

The Board's investment is in a 50% owned subsidiary, Central Agricultural Facility Ltd., and includes the following:

	2004	2003
Shares - 50% interest	$ 1	$ 1
Advances representing:		
Prepaid rent	$ 109,250	$ 109,250
Less amortized to rent expense	(109,250)	(103,951)
	-	5,299
Advances without interest or fixed terms of repayment	1,216,251	1,041,249
	$ 1,216,252	$ 1,046,549

5. Capital assets:

	Cost	Accumulated amortization	2004 Net book value	2003 Net book value
Office equipment	$ 299,892	$ 160,521	$ 139,371	$ 92,636

6. Fees payable or refundable:

	2004	2003
Fees payable to producers, processors or third parties:		
Quality bonus fees	$ 258,792	$ 253,645
Skim-off payable to Dairy Farmers of Canada	93,524	93,524
Marketing costs and losses fees	50,338	50,619
Security deposit payable to vendor	10,000	10,000
	$ 412,654	$ 407,788

7. Unearned fees:

	2004	2003
Balance, beginning of year	$ 1,302,737	$ 4,333,433
Add:		
Over quota - domestic/world price differential	1,952,133	339,307
In quota fees charged to producers	440,811	-
Interprovincial freight	-	937,851
Vendor default levy	64,242	60,565
	3,759,923	5,671,156
Less:		
Over quota- domestic/world price differential paid to producers	339,307	2,315,003
In quota fees paid to producers	-	953,331
Interprovincial freight paid to transporters	-	1,100,085
	339,307	4,368,419
Balance, end of year	$ 3,420,616	$ 1,302,737

8. **Fees - producers, processors or other agencies:**

During the year the following fees were assessed by the Board for remittance to producers, processors or other agencies:

	2004	2003
Assessed on processors for remittance to producers:		
Quality bonus	$ 1,429,521	$ 1,413,039
Marketing costs and losses fees	5,140,713	1,660,320
Assessed on processors for remittance to plant of last resort:		
Accommodation fees	1,925,907	1,815,848
Assessed on processors for remittance to B.C. Dairy Council - Container recycling fee	711,241	-
Assessed on producers for remittance to Dairy Farmers of Canada:		
Promotion	-	1,386,167
	$ 9,207,382	$ 6,275,374

On February 1, 2003, the Dairy Industry Development Council was formed. Promotion fees assessed and remitted of $2,941,809 (2003 - $1,434,122) are now reported in the Equalization Fund.

9. Board fees:

During the year the following fees were assessed by the Board:

	2004	2003
Assessed on producers:		
Administration fees	$ 1,027,874	$ 969,049
Licence fees	137,146	139,280
	1,165,020	1,108,329
Assessed on GEP applicants	9,800	9,350
Assessed on processors:		
Administration fees	706,166	665,811
Licence fees	6,886	6,590
	713,052	672,401
Assessed on transporters:		
Licence fees	2,722	2,364
	$ 1,890,594	$ 1,792,444

10. Transportation:

	2004	2003
Transportation revenue	$ 10,001,835	$ 9,574,631
Handling revenue	12,389	23,710
	$ 10,014,224	$ 9,598,341
Transport haulers	$ 13,660,070	$ 12,126,000
Seal-Tite program	172,135	-
Data collection	144,800	11,218
Salaries and benefits	251,214	226,201
Management contract	-	40
Travel	7,551	1,413
Rent	22,746	7,200
Milk testing shortfall	85,506	196,386
	14,344,022	12,568,458
Costs recovered from milk pool equalization fund	(4,329,798)	(2,970,117)
	$ 10,014,224	$ 9,598,341
Total milk shipments in hectolitres	6,424,191	6,056,298

11. Commitment:

The Board rents its office premises under a sub-lease covering the period May 1, 2003 to April 30, 2006. Lease payments are $11,695 per month effective October 1, 2003.

12. Contingent liability:

The Board has provided a $250,000 mortgage guarantee for Central Agricultural Facility Ltd. ("CAFL") for the purchase of a building.

13. Related party transactions:

Included in general office and administration expense is $111,124 (2003 - $96,000) in lease payments and $5,297 (2003 - $15,894) in amortized prepaid rent to lease facilities from CAFL.

The Board is a 50% shareholder in CAFL. During the year the Board advanced $175,000 to CAFL for renovations to an office building for the use by the Board and other tenants.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14. Fair value of financial assets and financial liabilities:

The fair value of the Board's cash, accounts receivable, accounts payable and accrued liabilities and fees payable or refundable approximate their carrying values due to the short term nature of the amounts.

15. Comparative figures:

Certain of the prior year's figures shown for comparison have been reclassified to conform with the current year's financial statement presentation.

Financial Statements of

BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND

Year ended July 31, 2004

KPMG LLP
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AUDITORS' REPORT TO MEMBERS

We have audited the balance sheet of British Columbia Milk Marketing Board Equalization Fund as at July 31, 2004 and the statement of revenue and expenditures for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Milk Marketing Board Milk Pool Equalization Fund as at July 31, 2004 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Chilliwack, British Columbia
September 28, 2004

KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is a member firm of KPMG International, a Swiss association.

BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND

Balance Sheet

July 31, 2004, with comparative figures for 2003

	2004	2003
Assets		
Cash	$ 19,733,336	$ 17,650,267
Accounts receivable	21,248,122	22,476,146
	$ 40,981,458	$ 40,126,413
Liabilities		
Accounts payable (Note 2)	$ 40,811,738	$ 39,958,415
Long-term accounts payable (Note 3)	169,720	167,998
	$ 40,981,458	$ 40,126,413

On behalf of the Board:

Chairman

Secretary-Treasurer

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND
Statement of Revenue and Expenditures

Year ended July 31, 2004, with comparative figures for 2003

	2004	2003
Revenue:		
Equalization receipts	$ 420,481,815	$ 407,752,965
Other agencies (Note 4)	7,961,190	5,653,057
Interest	125,532	173,303
	428,568,537	413,579,325
Less transfers to other agencies (Note 4)	7,961,190	5,653,057
	420,607,347	407,926,268
Expenditures:		
Payments to Canadian Dairy Commission:		
P10 and Western Milk Pool equalization	22,424,266	14,264,813
Over quota - domestic/world price differential	-	2,316,110
	22,424,266	16,580,923
Transportation shortfall charged to the milk pool equalization fund	4,329,798	2,970,117
Equalization payments to producers	393,853,283	388,375,228
	420,607,347	407,926,268
Excess of revenue over expenditures	$ -	$ -

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND
Notes to Financial Statements

Year ended July 31, 2004

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1. General:

The British Columbia Milk Marketing Board ("the Board") is a regulatory body which receives its authority under the Natural Products Marketing (B.C.) Act, the British Columbia Milk Marketing Board Regulation, the Milk Industry Act, the Agricultural Products Marketing Act, the British Columbia Milk Order, the Canadian Dairy Commission Act, and the Dairy Products Marketing Regulations.

The Milk Pool Equalization Fund is the method used by the Board to enable producers to participate in all of the sales in each of the Milk Classes established by the Board proportionate to the quota allotted to each producer.

Effective March 1, 1997 the four western provinces, British Columbia, Alberta, Saskatchewan and Manitoba and the Canadian Dairy Commission made an agreement named the Western Milk Pooling Agreement. The purpose of the Agreement is to extend the pooling arrangements within each of the provinces so that all producer returns are pooled among producers in all of the western provinces, as if the western provinces constituted a single market.

Effective October 1, 2001, the Board became the first receiver of raw milk. As a consequence the Board acts as a facilitating intermediary between producers and processors with respect to the transportation and sale of raw milk.

These statements do not include the general fund operations of the Board which are reported separately.

2. Related fund balances:

Included in accounts payable is an amount of $3,304,814 (2003 - $1,011,909) owing to the Board's General Fund. These amounts represent equalization obligations charged to producers through the Milk Pool Equalization Fund, transportation shortfall charged to the pool, and levies due.

3. Long-term accounts payable:

This amount represents an accumulation of the excess of equalization receipts over equalization payments. It is used to ensure adequate funds are available to meet cash flow needs. The Board does not intend to pay this amount within the next year, accordingly it is classified as a long-term accounts payable.

4. Other agencies:

During the year the following fees were assessed by the Board for remittance to other agencies:

	2004	2003
Assessed on producers for remittance to BC Milk Producers Association		
Association levy	$ -	$ 208,895
Assessed on producers for remittance to Dairy Products Promotional Fund		
Promotion	-	1,728,359
Ministry penalties	-	39,026
Assessed on producers for remittance to Dairy Industry Development Council		
DFC Promotion	2,941,809	1,434,122
Association levy	481,816	231,280
Fluid milk promotion	4,460,614	1,975,221
Ministry penalties	76,951	36,154
	$ 7,961,190	$ 5,653,057

Effective February 1, 2003, the Board commenced paying the Dairy Farmers of Canada promotion fee to the Dairy Industry Development Council, which in the past was paid by the General Fund to the Dairy Farmers of Canada.

5. Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenditures during the reported period. Actual results could differ from those estimates.

6. Statement of cash flow:

A statement of cash flow has not been prepared as the information is readily apparent from the financial statements presented.

7. Fair value of financial assets and financial liabilities:

The fair value of the Board's cash, accounts receivable and accounts payable approximate their carrying amounts due to the short term nature of the amounts.

Statistical Overview

On July 31, 2004 there were 672 milk producers in British Columbia. A breakdown of producer populations and quota distribution by region is presented in Table 1 of Appendix A.

Statistical information on milk production, utilization and sales is presented in Tables 2 to 4 in Appendix A. During the 2003/2004 dairy year 642,421,386 litres of milk were produced in British Columbia (see Table 2). Of this total production, 357,996,812 litres were utilized in the Class 1 market (see Table 3 for a breakdown of Class 1 milk sales by product) and 284,424,574 litres were used in the processing of non-fluid dairy products.

Total milk production in British Columbia increased by 36,764,360 litres or 6.07% during the period from August 1, 2003 to July 31, 2004 over the corresponding period in 2002 and 2003 (see Table 2). Class 1 utilization during the August 1, 2003 to July 31, 2004 period increased by 2,812,525 litres or 0.79% over the same period in 2002 and 2003 (see Table 2). Industrial milk utilized during the 2003/2004 dairy year compared to the 2002/2003 dairy year increased by 33,951,835 litres or 13.56% (see Table 2).

On March 1, 1997 the Western Milk Pool (WMP) was formed consisting of British Columbia, Alberta, Saskatchewan and Manitoba. Production and sales figures for the WMP from August 1, 2003 to July 31, 2004 are presented in Table 4 of Appendix A. Total production of butterfat in the WMP was 65,067,264 kilograms during the 2003/2004 dairy year (see Table 4). Class 1 milk sales in the WMP during the same period were 878,979,415 litres (see Table 4).

There were 32 dairy plants licensed by the Board to process milk as at July 31, 2004. Licensing statistics are provided in Table 5 of Appendix A.

Going Concern Sales and Other Transfers

There were 45 transfers of Total Production Quota (TPQ) processed during the 2003/2004 dairy year without the use of the quota exchange. Amongst these 45 transactions were 5 partial transfers, 14 family transfers, 13 name changes and 3 merge/splits that accounted for 759,266 kilograms of the total kilograms transferred. Going concern sales resulted in 195,992 kilograms of TPQ being transferred. The Board assessed 11,813 kilograms under its assessment policy. Details of TPQ transfers during the 2003/2004 dairy year are shown in Table 6 of Appendix A.

Quota Exchange

Two quota exchanges were run every month except for July as there are no transfers effective August 1. Details of the quota exchange market clearing prices for the 2003/2004 dairy year are given in Table 7 of Appendix A.

Manufactured Milk Quota

Manufactured Milk Quota (MMQ) allocated to British Columbia for the 2003/2004 dairy year was 9,569,204 kilograms of butterfat on August 1, 2003. This was increased to 10,206,726 kilograms on October 1, 2003. MMQ was decreased to 10,115,098 kilograms on December 1, 2003 and then to 10,108,343 kilograms on June 1, 2004. British Columbia produced 146,484 kilograms of butterfat under the Domestic Dairy Product Innovation Program. British Columbia's deemed MMQ under the Western Milk Pooling Agreement was 11,421,471 kilograms as at July 31, 2004.

Graduated Entry Program

To provide a major portion of the quota necessary for the Graduated Entry Program (GEP), a transfer assessment policy was introduced in August 1986 for fluid quota and in January 1991 for MMQ. The assessment was reduced from 10% to 5% in April 1995. Effective August 1, 1999 the transfer assessment policy was discontinued for TPQ sold on the quota exchange. During the 2003/2004 dairy year the TPQ transfer assessment remained at 5% for going concern sales and partial transfers. Details of the GEP are provided in Tables 8 and 9 of Appendix A.

Producer Revenue and Milk Composition

During the 2003/2004 dairy year the average producer grossed between $58.30 and $65.06 per hectolitre of within-quota milk. After including the Marketing Costs and Losses Levy refund and the milk quality bonus, the average producer grossed between $58.72 and $65.48 per hectolitre of within-quota milk. Details of monthly revenue, milk composition and prices are summarized in Tables 10 and 11 of Appendix A.

Vendor Audits

Throughout the 2003/2004 dairy year the auditing of licensed vendors followed the Board established vendor audit schedule. Although vendors were typically audited on a quarterly basis, the specific frequency for each vendor conformed to risk assessment principles. Characteristics such as plant size and product variety influenced the frequency of audits. Larger vendors were audited from four to six times during the dairy year while two audits were the norm for smaller vendors.

As was expected for the 2003/2004 dairy year, vendor audits uncovered variances that were characterized as insignificant when examined from the perspective of the total value of milk delivered each month by producers. The finding of variances by vendor audits is not uncommon because vendors capture and record large amounts of data, and slight over or under reporting can occur. There was no trend evident among any of the licensed vendors that the incidence of audit variances exceeded normalcy.

Upon identification, audit variances were incorporated into subsequent monthly equalization pools as audit adjustments. A review of the audit adjustments made during the 2003/2004 dairy year as set out in each of the monthly producer equalization pools serves to demonstrate that audit variances have occurred. However, they have not been of a nature where the monthly blend price or the monthly value for any of the three milk components has been significantly affected.

Appeals to the B.C. Farm Industry Review Board

Northern Interior Dairymen's Association and Mainland Dairymen's Association

Appeals filed in December 2001 and July 2002 by the Northern Interior Dairymen's Association and the Mainland Dairymen's Association respectively resulted from decisions of the Board concerning freight charges. The B.C. Farm Industry Review Board ruled on the appeals in January 2004.

Island Farms

An appeal filed in December 2003 by Island Farms Dairies Co-operative Association, a licensed vendor, pertained to a decision of the Board to increase the Vendor Marketing Costs and Losses Levy. The B.C. Farm Industry Review Board ruled on the appeal in June 2004.

Pan-O-Ramic Farms (1990) Limited

Pan-O-Ramic Farms (1990) Limited, a licensed transporter, filed an appeal in February 2004 regarding the non-renewal of a transporter contract by the Board. This appeal had not been resolved at the end of the dairy year.

Appendix A

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Notes

TABLE 1 - Regional Statistics for British Columbia as at July 31, 2004

Region	Number of Producers*	TPQ Allotted (kg)
1 - Fraser Valley	464	16,223,476
2 - Vancouver Island South	47	1,686,902
3 - Vancouver Island North	24	1,025,258
4 - Bulkley Valley	13	245,422
5 - Cariboo	9	314,804
6 - Kootenays	13	512,431
7 - Okanagan	97	2,812,790
8 - Peace River	5	123,207
Total	672	22,944,290

* Includes licensed producers in Class C and Class D Restricted

TABLE 2 - Qualifying Milk Production in British Columbia for the 2003/2004 and 2002/2003 Dairy Years

	PRODUCTION		UTILIZATION CLASS 1		UTILIZATION OTHER CLASSES	
	Total Litres	Daily Average Litres	Total Litres	Daily Average Litres	Total Litres	Daily Average Litres
2003/2004 Totals	642,421,386	1,755,250	357,996,812	978,133	284,424,574	777,116
2002/2003 Totals	605,657,026	1,659,334	355,184,287	973,108	250,472,739	686,227
Volume Change	36,764,360	95,915	2,812,525	5,026	33,951,835	90,890
Percent Change	6.07%	5.78%	0.79%	0.52%	13.56%	13.24%

Notes Table 2 includes milk utilized in Class 1(b)(ii) and Class 1(d), whereas Table 3 does not.
Table 2 does not include milk used for non-fluid purposes produced by Cottage Industry Producer Vendors.

TABLE 3 - Class 1 Milk Sales in British Columbia for the 2003/2004 and 2002/2003 Dairy Years

	2003/2004 Litres	2002/2003 Litres	Volume Change	Percent Change
Homogenized Milk (3.25%B.F.)	65,257,552	64,775,683	481,869	0.74%
Skim Milk (2%B.F.)	126,065,160	126,217,144	-151,984	-0.12%
Skim Milk (1%B.F.)	75,873,531	75,626,860	246,671	0.33%
Skim Milk (<0.5%B.F.)	48,364,090	49,086,568	-722,478	-1.47%
Chocolate Milk	10,849,838	9,743,779	1,106,059	11.35%
Buttermilk	3,489,395	3,203,659	285,736	8.92%
Light Cream (10%B.F.)	15,924,867	15,109,294	815,573	5.40%
Cream (18%B.F.)	3,880,673	2,669,772	1,210,901	45.36%
Whipping Cream (32%B.F.)	6,562,040	5,604,744	957,296	17.08%
Eggnog	1,041,251	1,063,361	-22,110	-2.08%
Cordials	71,967	174,037	-102,070	-58.65%
All Products	357,380,364	353,274,901	4,105,463	1.16%

Note: Table 3 does not include milk utilized in Class 1(b)(ii) and Class 1(d), whereas Table 2 does.

TABLE 4 - Western Milk Pool Statistics for the Period from August 1, 2003 to July 31, 2004

	CLASS 1 SALES (LITRES)	% OF CLASS 1 SALES (LITRES)	CLASS 1 SALES PLUS EXCLUSION (LITRES)	AVG. B/F ALL MILK (KG/HL)	CLASS 1 SALES PLUS EXCLUSION (KG)	DEEMED CLASS 1 (KG)	DEEMED INDUSTRIAL (KG)	TOTAL PRODUCTION (KG)
Manitoba	113,170,245	12.88%	117,847,094	3.7503	4,421,226	5,623,755	5,591,439	11,215,194
Saskatchewan	68,810,679	7.83%	72,607,244	3.6939	2,684,025	4,029,338	3,933,353	7,962,691
Alberta	339,431,534	38.62%	348,149,980	3.6247	12,631,703	11,557,490	11,461,899	23,019,389
British Columbia	357,566,957	40.68%	365,076,111	3.5600	13,008,947	11,535,319	11,334,671	22,869,990
TOTAL	878,979,415	100.00%	903,680,429	3.6308	32,745,901	32,745,902	32,321,362	65,067,264

TABLE 5 - Licensing Information for British Columbia

CLASS OF LICENCE	A	B	C	D RESTRICTED	H
ISSUED BETWEEN AUGUST 1, 2003 AND JULY 31, 2004	19	13	716	4	14
CANCELLED BETWEEN AUGUST 1, 2003 AND JULY 31, 2004	4	0	47	0	1
IN EFFECT JULY 31, 2004	15	13	669	4	13
IN EFFECT JULY 31, 2003	18	11	676	4	14

CLASS A LICENCE - VENDORS PROCESSING BOTH FLUID AND NON FLUID MILK PRODUCTS

CLASS B LICENCE - VENDORS PROCESSING ONLY NON FLUID MILK PRODUCTS

CLASS C LICENCE - PRODUCERS ALLOTTED TOTAL PRODUCTION QUOTA

CLASS D RESTRICTED LICENCE - PRODUCERS ALLOTTED TOTAL PRODUCTION QUOTA AND PROCESSING MILK ON THEIR FARM INTO NON FLUID PRODUCTS

CLASS H LICENCE - TRANSPORTERS OF MILK

TABLE 6 - Quota Transfers in British Columbia from August 1, 2003 to July 31, 2004

Quota Exchange	Kilograms
Unused TPQ	319,752
Used TPQ	243,777
Going Concern Transfers	
Unused TPQ	124,740
Used TPQ	71,252
Partial Transfers	
Unused TPQ	24,522
Used TPQ	13,950
Other Transfers	
Family	353,100
Name Changes	343,441
Merge/Splits	24,253
TOTAL ALL TRANSFERS	**1,518,787**

TABLE 7 - Quota Exchange Market Clearing Prices in British Columbia from August 2003 to July 2004

	First Quota Exchange		Second Quota Exchange	
Month	Unused TPQ ($/kg)	Used TPQ ($/kg)	Unused TPQ ($/kg)	Used TPQ ($/kg)
Aug-03	$70.00	N/A*	$71.75	N/A*
Sep-03	$72.25	N/A*	$70.75	N/A*
Oct-03	$72.00	$62.00	$72.00	$65.25
Nov-03	$72.50	$64.00	$72.00	-
Dec-03	$72.00	$62.00	$72.00	$63.00
Jan-04	$72.25	$64.00	$70.00	$63.25
Feb-04	$72.00	$66.00	$75.00	$68.00
Mar-04	$77.00	$69.00	$79.00	$69.25
Apr-04	$82.00	$71.00	$85.00	$70.00
May-04	-	$76.00	$82.00	$76.75
Jun-04	$80.00	$78.00	$83.00	$80.00
Jul-04	N/A**	N/A**	N/A**	N/A**

* No Used TPQ Exchanges in August and September
** No Unused or Used TPQ Exchanges in July

TABLE 8 - Number of Producers Started on the Graduated Entry Program

Year	Fraser Valley	Okanagan	Bulkley Valley	Kootenays	Cariboo	Peace River	Vancouver Island	Total
1994	5							5
1995	6	1						7
1996	8	2						10
1997	9	1						10
1998	6	4						10
1999	2	2						4
2000	2							2
2001	4	2	2					8
2002	3							3
2003	3							3

TABLE 9 - Total Production Quota Allotted to Graduated Entry Program Participants

Year	Producers Started on Program	Initial Allotment of Total Production Quota (Kilograms)	Matching Allotment of Total Production Quota (Kilograms)	Total Allotment (Kilograms)
1997	10	29,500	30,431	59,931
1998	10	29,500	32,914	62,414
1999			1,414	1,414
2000			1,599	1,599
2001			1,404	1,404
		Temporary Allotment of Total Production Quota (Kilograms)		
1999	4	28,000		28,000
2000	2	14,000		14,000
2001	8	62,000		62,000
2002	3	21,000		21,000
2003	3	21,000		21,000

TABLE 10 - Gross Monthly Producer Revenue from August 2003 to July 2004

MONTH	STANDARD HECTOLITRE REVENUE ($/HL)			AVERAGE BC HECTOLITRE REVENUE ($/HL)		
	STANDARD HECTOLITRE	PLUS MARKETING COSTS & LOSSES LEVY REFUND ($0.17 PER HL)	PLUS QUALITY BONUS ($0.25 PER HL)	AVERAGE BC HECTOLITRE	PLUS MARKETING COSTS & LOSSES LEVY REFUND ($0.17 PER HL)	PLUS QUALITY BONUS ($0.25 PER HL)
Aug-03	61.41	61.58	61.83	60.38	60.55	60.80
Sep-03	63.00	63.17	63.42	63.02	63.19	63.44
Oct-03	64.45	64.62	64.87	65.06	65.23	65.48
Nov-03	61.68	61.85	62.10	63.38	63.55	63.80
Dec-03	60.44	60.61	60.86	61.31	61.48	61.73
Jan-04	59.77	59.94	60.19	60.27	60.44	60.69
Feb-04	59.82	59.99	60.24	59.62	59.79	60.04
Mar-04	61.39	61.56	61.81	60.48	60.65	60.90
Apr-04	59.28	59.45	59.70	58.30	58.47	58.72
May-04	60.27	60.44	60.69	59.10	59.27	59.52
Jun-04	61.06	61.23	61.48	59.86	60.03	60.28
Jul-04	62.64	62.81	63.06	60.99	61.16	61.41

Notes: From Aug-03 to Jul-04 a standard hectolitre contained 3.6000 kg of butterfat, 3.2557 kg of protein and 5.6713 kg of other solids.
Table 11 contains the average component tests for a hectolitre of milk produced in the province of British Columbia.

TABLE 11 - Monthly Milk Composition and Prices from August 2003 to July 2004

MONTH	AVERAGE COMPONENT TESTS			MILK COMPONENT PRICES		
	BUTTERFAT (KG/HL)	PROTEIN (KG/HL)	OTHER SOLIDS (KG/HL)	BUTTERFAT ($/KG)	PROTEIN ($/KG)	OTHER SOLIDS ($/KG)
Aug-03	3.5148	3.1958	5.6966	4.4396	11.3548	1.4908
Sep-03	3.6028	3.2538	5.6945	4.7635	11.3811	1.5505
Oct-03	3.6317	3.2929	5.6883	5.2181	11.2663	1.5836
Nov-03	3.7156	3.3589	5.6823	4.7877	10.9793	1.5330
Dec-03	3.6828	3.2961	5.6979	4.7731	10.7329	1.4664
Jan-04	3.6345	3.2867	5.6753	4.9728	10.3727	1.4286
Feb-04	3.5783	3.2433	5.7009	4.9185	10.4831	1.4071
Mar-04	3.5055	3.2141	5.6966	5.3275	10.5126	1.4077
Apr-04	3.4651	3.2219	5.7047	4.9446	10.3965	1.3453
May-04	3.4489	3.2148	5.7005	5.1539	10.4422	1.3604
Jun-04	3.4619	3.2049	5.7021	5.1292	10.6712	1.3853
Jul-04	3.5035	3.1480	5.7032	5.2175	11.0132	1.4103